

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	71.50	0.00	2.00	73.50	0.00	2.00	73.50	73.50
Personal Services	3,096,095	242,016	95,850	3,433,961	240,982	95,578	3,432,655	6,866,616
Operating Expenses	733,518	334,376	16,470	1,084,364	371,591	9,650	1,114,759	2,199,123
Grants	573,215	0	0	573,215	0	0	573,215	1,146,430
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$4,402,828	\$576,392	\$112,320	\$5,091,540	\$612,573	\$105,228	\$5,120,629	\$10,212,169
General Fund	0	0	0	0	0	0	0	0
State/Other Special	4,402,828	576,392	112,320	5,091,540	612,573	105,228	5,120,629	10,212,169
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$4,402,828	\$576,392	\$112,320	\$5,091,540	\$612,573	\$105,228	\$5,120,629	\$10,212,169

Agency Description

The Office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and Securities and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities dealers in the state. The auditor also adopts rules and administers reform for the insurance and securities industries operating in the state. The auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board.

The statutory duties of the State Auditor are administered from three divisions: Central Management, Insurance, and Securities. The State Auditor is also a conduit for two "pass through" programs representing about \$28 million per year: the Forest Reserve Shared Revenue, and the Fire and Police Retirement Program. The federally funded Forest Reserve Shared Revenue (17-3-211, MCA) generated \$12.4 million in FY 2004 for counties in which the forest reserve is situated. It is disbursed through a state special revenue account in the same name. The Fire and Police Retirements Program funds are from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA). Funding for this program is disbursed from the general fund. In FY 2004, \$15.6 million went to the Municipal Police Officers' Retirement System; Firefighters' Unified Retirement System; the Volunteer Fighters' Compensation Act; local fire department relief associations; municipalities with police department trust funds; and local police pension funds for supplemental benefits.

Agency Highlights

State Auditor's Office Major Budget Highlights
<p>Total funding increases of \$782,000 over the 2005 biennium include:</p> <ul style="list-style-type: none"> • Statewide present law adjustments • A request for 2.0 FTE in rates and forms, and policyholder services divisions • Increased funding for costs associated with contract examinations of insurance and investment companies, the Captive Insurance Program, and increased rent

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2007 Biennium Executive Budget			
Agency Program	State Spec.	Grand Total	Total %
01 Central Management	\$ 1,163,354	\$ 1,163,354	11.4%
03 Insurance	7,542,714	7,542,714	73.9%
04 Securities	<u>1,506,101</u>	<u>1,506,101</u>	<u>14.7%</u>
Grand Total	<u>\$ 10,212,169</u>	<u>\$ 10,212,169</u>	<u>100.0%</u>

The State Auditor's Office receives no general fund. It is funded from state special revenue generated by insurance fees and taxes levied on the insurance industry for the sale of insurance policies in Montana, and security fees charged to the securities industry for the registration of securities and agents, or for the notice of a federal filing of a federally secured security. Resident and non-resident companies or individuals conducting insurance or security business in Montana are subject to fees. Insurance fees and taxes are deposited into a special revenue account under the same name. Fees generated from security licenses and permits are deposited into the special revenue security fee account. In accordance with 10-1-115, MCA, unspent collections from this account are deposited to the general fund. Deposits to the general fund were approximately \$2.1 million in FY 2004. Consequently, the amount of these funds appropriated to and spent by the office has a direct bearing on general fund.

Last session the legislature added \$1.3 million in restricted funds to state special revenue from the tobacco settlement proceeds, to be used in the insurance premium assistance program for unhealthy, low-income Montanans that is administered by the Insurance Division under 33-22-1513, MCA. There is \$573,215 in each year of the 2007 biennium for use in this program; the same amount as appropriated last session.

LFD COMMENT

In 1985 the legislature created the Montana Comprehensive Health Association (CHA) to insure Montana residents who are otherwise considered uninsurable due to medical conditions. A premium assistance program was developed to help residents meeting the low-income qualifications. In accordance with 17-6-606, MCA, 17 percent of the total tobacco settlement funds are used for the Children's Health Insurance Program, CHA, and to match federal Medicaid money. For further discussion of this program and the proposed Medicaid redesign, see the DPHHS Overview in this volume.

Biennium Budget Comparison

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	71.50	2.00	73.50	71.50	2.00	73.50	71.50	73.50
Personal Services	3,338,111	95,850	3,433,961	3,337,077	95,578	3,432,655	6,333,120	6,866,616
Operating Expenses	1,067,894	16,470	1,084,364	1,105,109	9,650	1,114,759	1,864,008	2,199,123
Grants	573,215	0	573,215	573,215	0	573,215	1,232,815	1,146,430
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$4,979,220	\$112,320	\$5,091,540	\$5,015,401	\$105,228	\$5,120,629	\$9,429,943	\$10,212,169
General Fund	0	0	0	0	0	0	0	0
State/Other Special	4,979,220	112,320	5,091,540	5,015,401	105,228	5,120,629	9,429,943	10,212,169
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$4,979,220	\$112,320	\$5,091,540	\$5,015,401	\$105,228	\$5,120,629	\$9,429,943	\$10,212,169

New Proposals

The "New Proposal" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 303 - Rates and Forms FTE										
03	1.00	0	59,575	0	59,575	1.00	0	56,016	0	56,016
DP 304 - Policyholder Services FTE										
03	1.00	0	52,745	0	52,745	1.00	0	49,212	0	49,212
Total	2.00	\$0	\$112,320	\$0	\$112,320	2.00	\$0	\$105,228	\$0	\$105,228

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	435,843	53,264	0	489,107	51,945	0	487,788	976,895
Operating Expenses	89,661	5,925	0	95,586	1,212	0	90,873	186,459
Total Costs	\$525,504	\$59,189	\$0	\$584,693	\$53,157	\$0	\$578,661	\$1,163,354
State/Other Special	525,504	59,189	0	584,693	53,157	0	578,661	1,163,354
Total Funds	\$525,504	\$59,189	\$0	\$584,693	\$53,157	\$0	\$578,661	\$1,163,354

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the State Auditor's Office. The division also provides support to the auditor in fulfilling the duties as a member of the state land and hail insurance boards.

Program Highlights

Central Management Division Major Budget Highlights	
<ul style="list-style-type: none"> Annual increases over the base year are because of present law adjustments and a decision package to increase rent by 2 percent. 	

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table Central Management						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02235 Insurance Fee Account	\$ 495,301	94.3%	\$ 550,734	94.2%	\$ 545,028	94.2%
02283 Securities Fee Account	<u>30,203</u>	<u>5.7%</u>	<u>33,959</u>	<u>5.8%</u>	<u>33,633</u>	<u>5.8%</u>
Grand Total	<u>\$ 525,504</u>	<u>100.0%</u>	<u>\$ 584,693</u>	<u>100.0%</u>	<u>\$ 578,661</u>	<u>100.0%</u>

This program is funded from state special revenue generated by fees and taxes for entities conducting insurance and or security business in Montana as identified and defined in 33-2-705 through 708, MCA.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					69,924					68,561
Vacancy Savings					(16,660)					(16,616)
Inflation/Deflation					(734)					(733)
Fixed Costs					5,553					269
Total Statewide Present Law Adjustments					\$58,083					\$51,481
DP 101 - Rent Increase										
	0.00	0	1,106	0	1,106	0.00	0	1,676	0	1,676
Total Other Present Law Adjustments										
	0.00	\$0	\$1,106	\$0	\$1,106	0.00	\$0	\$1,676	\$0	\$1,676
Grand Total All Present Law Adjustments					\$59,189					\$53,157

**LFD
COMMENT**

The increases in personal services are associated with raises for the elected official (2-16-405, MCA) and personal staff, as well as standard state raises for the program's non-personal staff. The office also reclassified a personnel technician position to a specialized human resource position at a much higher wage. The increase in salaries for the 2007 biennium represents \$35,000 per year over total salaries for each year of the 2005 biennium.

DP 101 - Rent Increase - The state of Montana entered into a lease contract with Montana Children's Home and Hospital for office space for the State Auditor's Office. This is a 10-year lease starting on January 15, 2000. Per the contract, the annual rate shall escalate 2 percent per year. This request is for the 2 percent increase based upon FY 2004 rates. Rent for FY 2004 will be \$27,387.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	48.50	0.00	2.00	50.50	0.00	2.00	50.50	50.50
Personal Services	2,134,568	133,211	95,850	2,363,629	134,358	95,578	2,364,504	4,728,133
Operating Expenses	538,261	264,850	16,470	819,581	300,659	9,650	848,570	1,668,151
Grants	573,215	0	0	573,215	0	0	573,215	1,146,430
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$3,246,044	\$398,061	\$112,320	\$3,756,425	\$435,017	\$105,228	\$3,786,289	\$7,542,714
State/Other Special	3,246,044	398,061	112,320	3,756,425	435,017	105,228	3,786,289	7,542,714
Total Funds	\$3,246,044	\$398,061	\$112,320	\$3,756,425	\$435,017	\$105,228	\$3,786,289	\$7,542,714

Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. The Rates and Forms Bureau is responsible for reviewing form filings and rate filings to ensure compliance with the applicable insurance code. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Investigations Bureau investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Highlights

State Auditors Office Major Budget Highlights	
Funding increases are primarily due to: <ul style="list-style-type: none"> Costs associated with contract insurance examinations and the captive insurance program A request for 1.0 FTE each in the rates and forms, and policyholder divisions Other factors are: A contractual 2 percent increase in rent and request for additional storage space, and statewide present law adjustments 	

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table						
Insurance						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02235 Insurance Fee Account	\$ 2,672,829	82.3%	\$3,183,210	84.7%	\$ 3,213,074	84.9%
02789 6901-Chip/Mcha Tobacco Sett Fd	<u>573,215</u>	<u>17.7%</u>	<u>573,215</u>	<u>15.3%</u>	<u>573,215</u>	<u>15.1%</u>
Grand Total	<u>\$ 3,246,044</u>	<u>100.0%</u>	<u>\$3,756,425</u>	<u>100.0%</u>	<u>\$ 3,786,289</u>	<u>100.0%</u>

This program is funded through state special revenue generated from a percentage charge against every insurance policy sold in the state, as well as from charges for insurance company examinations and fees paid by individual agents.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				227,705					228,898
Vacancy Savings				(94,494)					(94,540)
Inflation/Deflation				(4,311)					(4,287)
Fixed Costs				15,609					(7,230)
Total Statewide Present Law Adjustments				\$144,509					\$122,841
DP 301 - Office Rent & Secured Storage Increase									
0.00	0	6,532	0	6,532	0.00	0	9,432	0	9,432
DP 305 - Contract Insurance Examinations									
0.00	0	227,820	0	227,820	0.00	0	283,544	0	283,544
DP 306 - Captive Insurance									
0.00	0	19,200	0	19,200	0.00	0	19,200	0	19,200
Total Other Present Law Adjustments									
0.00	\$0	\$253,552	\$0	\$253,552	0.00	\$0	\$312,176	\$0	\$312,176
Grand Total All Present Law Adjustments				\$398,061					\$435,017

DP 301 - Office Rent & Secured Storage Increase - The budget includes an increase of \$6,532 in FY 2006 and \$9,432 in FY 2007 state special revenue to fund the scheduled 2 percent rent increase, and for additional secured storage space.

LFD COMMENT As per the lease between the State Auditor's Office and the Montana Children's Home and Hospital, rent has increased at a rate of 2 percent. This request would continue the lease for office space, and add additional storage space in the same building for the office's investigation units. The increase is based upon FY 2004 rates of \$138,459.

The investigation units are recognized as a criminal justice agency, and mandated by 44-5-401, MCA, to protect the security of any criminal justice information in a secured area. Evidence must be retained forever because a case can always be reopened. Evidence collected to date has filled the present secured storage space to capacity. Funds are for additional space of 165 square feet at \$5.68 per square foot in FY 2006, and \$5.80 per square foot in FY 2007.

**LFD
COMMENT
CONT.**

Digitizing the information would reduce storage space, but only old cases are candidates due to the requirement that much of the evidence must be in original form, and most evidence stored is too recent for digitization. The legislature may wish to examine digitization in future biennia, and encourage the office to digitize when it is able.

DP 305 - Contract Insurance Examinations - The executive recommends state special revenue for insurance contract exams as implemented by the 2003 legislature. The budget is based upon the examination schedule for the biennium. Insurance companies will reimburse the examination expenses.

**LFD
COMMENT**

The State Auditor's Office is statutorily mandated to conduct insurance contract exams once every five years that focus mainly on the financial solvency of insurance companies doing business in Montana. The office is also mandated to conduct market examinations once every three years that focus on business practice and equitable treatment of policyholders, on insurance companies domesticated in Montana. It is not obligated to conduct market examinations on insurance companies not domesticated in Montana, but does so when it receives numerous complaints about an insurance company.

In accordance with the contract exam mandate, the State Auditors Office makes a schedule estimating the number of companies it is going to examine and the cost. The request in DP 305 is based upon this estimate.

DP 306 - Captive Insurance - This restricted state special revenue request is recommended by the executive to fund \$19,200 each year of the biennium for review costs of new captive insurance applications in the 2007 biennium. An independent contract actuary reviews each application for financial viability at a cost of \$3,200, which is reimbursed by the applicant.

**LFD
COMMENT**

Captive insurance refers to a subsidiary corporation established to provide insurance to the parent company. These companies are owned by policyholders and are able to underwrite their own insurance rather than pay premiums to third-party insurers. Captive insurance companies in Montana pay a minimum of \$5,000 per year in premium taxes.

The captive insurance program had estimated there would be two new captive insurance company applications per year in the 2005 biennium. As of September 2005, three captives were licensed generating \$66,700 in premium taxes. Five new captive insurance company applications are anticipated per year for the 2007 biennium.

New Proposals

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 303 - Rates and Forms FTE										
03	1.00	0	59,575	0	59,575	1.00	0	56,016	0	56,016
DP 304 - Policyholder Services FTE										
03	1.00	0	52,745	0	52,745	1.00	0	49,212	0	49,212
Total	2.00	\$0	\$112,320	\$0	\$112,320	2.00	\$0	\$105,228	\$0	\$105,228

DP 303 - Rates and Forms FTE - This request proposes 1.00 FTE to expedite the review of insurance policy forms. The agency's goal is to approve or reject policy forms submitted to the State Auditor's Office within 20 days of submission and send insurance products to market more rapidly.

**LFD
COMMENT**

The State Auditor's Office proposes a Rates and Forms Bureau supervisor/bureau chief position to work with the three staff members that have been in place for six years, supervised by the actuary from the respective areas of life and health, and property and casualty. The FTE would help process the number of forms submitted, which has increased from 49,800 in 2000 to 53,000 in FY 2004.

Of the requested amount, \$52,000 each year is allocated to salary and benefits. The remaining \$7,600 for FY 2006 comprises \$1,500 in travel, \$3,400 for equipment, and \$2,700 for general operating expenses associated with the position. Funding for the position would come from state special revenue. The remaining 4,000 for FY 2007 comprises \$1,500 in travel and \$2,750 for general operating expenses.

**LFD
ISSUE**

There is indication that the State Auditor's Office may have reached its goal of the 20-day turn-around. The October 7, 2004 Billings Gazette article by Allison Farrell quotes State Auditor John Morrison on the topic of "speed to market" as saying, "Our average form approval is 17 days, which puts us in the top 25 percent of states."

DP 304 - Policyholder Services FTE - The executive budget includes \$52,745 in FY 2006 and \$49,212 in FY 2007 of state special revenue funding and an additional 1.00 FTE. This position will supervise and assist with the increased workload due to the recently signed Medicare prescription legislation, the federal Health Insurance Portability and Accountability Act (HIPAA), and the continuation of changes to state insurance statutes. The FTE would also assist with increased workload resulting from the federal Employee Retirement Income Security Act (ERISA), which has increased the need for State Auditor's Office to act as a liaison on behalf of Montana policyholders with the U.S. Department of Labor.

**LFD
COMMENT**

Of the amount requested, \$44,000 per year is for salary and benefits. Approximately 5,000 is allocated to general expenses and \$2,000 for in and out-of-state travel.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	13.00	0.00	0.00	13.00	0.00	0.00	13.00	13.00
Personal Services	525,684	55,541	0	581,225	54,679	0	580,363	1,161,588
Operating Expenses	105,596	63,601	0	169,197	69,720	0	175,316	344,513
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$631,280	\$119,142	\$0	\$750,422	\$124,399	\$0	\$755,679	\$1,506,101
General Fund	0	0	0	0	0	0	0	0
State/Other Special	631,280	119,142	0	750,422	124,399	0	755,679	1,506,101
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$631,280	\$119,142	\$0	\$750,422	\$124,399	\$0	\$755,679	\$1,506,101

Program Description

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and, in particular, for the registration of securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives. The division also is responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets of under \$25 million. The Investigations Bureau investigates securities code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution

Program Highlights

Securities Division	
Major Budget Highlights	
Total funding increases over base year expenditures by 19 percent are due to:	
<ul style="list-style-type: none"> • Statewide present law adjustments • A decision package to increase rent • Increased funding for costs associated with security contract examinations 	

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table						
Securities						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02283 Securities Fee Account	631,280	100.0%	750,422	100.0%	755,679	100.0%
Grand Total	<u>631,280</u>	<u>100.0%</u>	<u>750,422</u>	<u>100.0%</u>	<u>755,679</u>	<u>100.0%</u>

This program is funded with state special revenue from the securities fee account, which draws its revenue from securities portfolio registration fees charged to investment advisors and investment companies, as well as from security licenses and permits. In accordance with 30-1-115, MCA, unspent collections from security licenses and permits are deposited to the general fund. Deposits to the general fund were approximately \$2.1 million in FY 2004. Therefore, appropriations to the program directly impact the general fund.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----						-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					79,758					78,860
Vacancy Savings					(24,217)					(24,181)
Inflation/Deflation					(1,246)					(1,236)
Fixed Costs					1,643					1,972
Total Statewide Present Law Adjustments					\$55,938					\$55,415
DP 401 - Office Rent & Secured Storage Increase										
	0.00	0	2,412	0	2,412	0.00	0	3,192	0	3,192
DP 403 - Contract Securities Examinations										
	0.00	0	60,792	0	60,792	0.00	0	65,792	0	65,792
Total Other Present Law Adjustments										
	0.00	\$0	\$63,204	\$0	\$63,204	0.00	\$0	\$68,984	\$0	\$68,984
Grand Total All Present Law Adjustments					\$119,142					\$124,399

LFD COMMENT

The increases in personal services are associated with pay raises for the elected official's personal staff position and the program's non-personal staff, as well as three positions that were reclassified. The salary increases and the reclassified positions account for a \$29,000 per year increase for the 2007 biennium over the 2005 biennium

DP 401 - Office Rent & Secured Storage Increase - The budget includes an increase of \$2,412 state special revenue in FY 2006 and \$3,192 in FY 2007 to fund the scheduled 2 percent rent increases and for additional secured storage space, based on a contract negotiated by the Department of Administration.

LFD COMMENT

As referenced in previous discussions about rent, the 2 percent increase is governed by the contractual agreement, and the need for secured storage space would help this department meet the mandate of 44-5-401, MCA.

DP 403 - Contract Securities Examinations - The executive recommends state special revenue for securities contract exams as implemented by the 2003 legislature. The budget is based upon the examination schedule for the biennium. Security companies reimburse the examination expenses.

LFD COMMENT

This request continues funding for examinations of investment advisors at the base year appropriation of \$23,000 and adds \$60,000 in FY 2006 and \$65,000 in FY 2007 to conduct broker/dealer examinations. Although statute implies that examinations be conducted, there is no mandatory requirement to do so on a routine basis.

The two previous legislatures appropriated funding for examinations to allow the office to move toward routine examinations of broker/dealer branch offices throughout Montana on a three-year cycle. The 2003 legislature appropriated funding for a 0.50 FTE and \$12,000 per year for investigations. The 2005 legislature appropriated funding for 1.00 FTE and increased state special revenue funds by \$78,626 per year as a restricted appropriation.